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A PLEA FOR PLANNING IN CO-OPERATION

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**NOT TO BE
LOANED OUT.**

A PLEA FOR PLANNING IN CO-OPERATION

In recent years, there have been so many surveys of and investigations into the co-operative movement in India that it appears somewhat of a superfluity to add to their number. To say mind, it also appears a little presumptuous for one who has been merely an humble worker in the movement to attempt anything like a critical analysis of the shortcomings and the requirements of co-operation. I shall, however, make the attempt, although at the outset I may not disguise the fact that I do so as a confirmed believer not only in the theory of co-operation but also in its suitability for the economic needs of the person of small means in our country, be he an agriculturist, an artisan, a petty trader, or a consumer. In the field of rural reorganization, particularly, I can visualize no form of organization so suited to our conditions as the co-operative, and I subscribe wholeheartedly to what Prof: R. H. Tawney observes in relation to China that "there is no movement in which a group of men who desire to improve the life of the farmer can engage with greater certainty of producing permanent results."* But assertions such as these based on faith in the potentialities of co-operation lead us nowhere; they can scarcely be of help in removing deficiencies or in ensuring progress. As another writer puts it, it cannot be assumed that a co-operative organization can be created merely because it is desirable.† "For one thing", as the same writer remarks, "it should not be forgotten that co-operation is, inherently, a more difficult form of organization than private enterprise, just because it depends on the loyal and harmonious action of a large number of individuals, while the latter requires the self-seeking initiative of the few." Hardly any among the critics of the co-operative movement in India, however, care to make any allowances for this essential distinction between the co-operative and the capitalist methods of working.

Effects of Depression on Agricultural Credit

There is another factor in the present-day economic conditions

* "Land and Labour in China".

† H. Clay: Foreword to "Small Scale Production in India" by V. G. R. Ayyar.

in rural India to which critics often pay scant attention. The devastating effects of the world-wide economic depression are, if I may say so, inadequately appreciated by such critics. I do not wish to assess, at length, the influence of this factor on our rural economic life, but I shall proceed on the basis of generally accepted facts. The first of these is that the depression affected the primary producer more adversely than any other section of the community. The second agreed assumption is that agricultural prices dropped to somewhere between 40 to 50 per cent. of the pre-depression levels, and thus reduced correspondingly the agriculturist's ability to meet his fixed money obligations. Lastly, it is also generally accepted that little, if any, active financial help was rendered by the State in India to ease the situation or to enable the agriculturist to adjust his economic life to the new level of prices.

Without going into details, I shall make bold to assert that, apart from India, there was scarcely any progressive country in the world, with a predominant rural economy, which did not go to the aid of the agricultural community by adopting suitable measures for the lightening of the burden of debt. The measures adopted are classified by M. L. Tardy into the following five main categories : conversion ; reduction of the capital amount of the debt ; consolidation ; composition and moratorium ; protection of debtors from measures of execution taken by their creditors. Protective measures through legislative enactments were, no doubt, taken in some provinces ; but the bulk of these came late, with the advent of provincial autonomy in 1937. We in Bombay are, however, still without a law for the regulation of money-lending transactions, and the law for the relief of agricultural debtors is to be applied, two years after its enactment, only in selected areas.

But in no part of British India was any financial aid given in time to enable organized responsible credit agencies such as co-operative societies to facilitate the process of the scaling down of debts, the reduction of interest or the conversion of short term into long term liabilities. Several of the Balkan countries, a few among the Baltic States, Poland, Estonia, Egypt and the United States either financed such operations or guaranteed repayment of the loans or brought into existence special institutions for the purpose. Bulgaria is the most noteworthy illustration in this respect. As Miss Margaret Digby

wrote some years back : " In Bulgaria (where co-operation is more centralized than in Yugo-Slavia), the State controlled Agricultural Bank (with which the Co-operative Bank was amalgamated in 1934) is the principal credit giving institution working through a large number of co-operative credit banks, most of which receive, in normal times, deposits upto three-quarters of the value of their loans. In the last five years, much farmers' credit in Bulgaria, as elsewhere, has been virtually frozen. The Government has intervened to take over 80 per cent. of the farmers' debts (the proportion graduated according to the sum involved) substituting amortization over ten years. This is much the same expedient as that adopted in Yugo-Slavia, but in Bulgaria, the debt has been transferred from the Agricultural Bank to the State, leaving the Bank with funds relatively liquid and the power to make fresh advances. "* In India, wedded as our Government are to *laissez faire*, things were allowed to drift until it became too late to take effective action. How, in these circumstances, one should expect members of co-operative credit societies to meet their obligations in full and punctually or for the societies and their financing agencies, unaided by the State, to adjust their operations to the new basis of agricultural incomes and land values, passes my poor understanding.

Although I have no desire to enter upon an elaborate statistical analysis of the working of co-operative credit societies before the depression and thereafter, it will not be out of place if I quote some comparative figures for agricultural credit societies for all the provinces and 9 Indian States :

Year	Number of Societies		Number of members of all agricultural Societies	Loans due	Repayments during the year
	Credit	Other types			
1929-30	82,554	9,232	31,17,627	Rs. 29,73,13,767	Rs. 9,48,08,200
1930-31	83,658	8,854	31,62,359	" 30,69,41,577	" 6,63,26,410
1937-38	84,015	11,691	31,62,629	" 23,66,51,442	" 5,42,87,708
1938-39	93,767	11,504	35,60,425	" 24,01,44,148	" 6,15,57,480
1939-40	1,01,401	17,343	40,98,426	" 23,13,82,638	" 7,95,54,405

The year 1929-30 was the first one in which the depression made itself felt fully. Still, there was, in the next year, a small increase in

* From " Debt Relief and the Co-operative Movement " by Miss Margaret Digby Secretary, Horace Plunkett Foundation, London. (Indian Co-operative Review, Vol. III, No. 3, July -Sept., 1937).

the number of societies, in membership and in the working capital, but there was a considerable drop in repayments. Seven years later, the number of societies remained nearly the same as did the membership; but, during the period, the working capital decreased by nearly 25 per cent. (It may be mentioned here that Burma no longer figures in the statistics for the latter period, though this does not materially affect the general statistical picture.) The last year, for which all-India figures are available shows a fairly large increase in the number of societies, which increase is, however, confined to a couple of provinces. There has been a small increase in the membership and comparatively a smaller one in the resources. It is significant, however, that repayments have risen more than proportionately. In Bombay, it may be added, while in 1930-31 repayments amounted to Rs. 1,53,97,241 against loans due amounting to Rs. 3,95,18,621, in 1938-39 the corresponding figures were Rs. 1,11,30,730 and Rs. 2,54,30,542. The figures for 1939-40 show a still better position being Rs. 1,36,32,157 and Rs. 2,40,71,897. Amidst the disturbing features of the situation, these figures of repayments provide, indeed, some matter for relief, particularly when it is remembered that in several provinces and in many societies, there has been no disentanglement of the debts that became frozen, by reason of the depression, from the current liabilities. In the hope that a rise in price levels may obviate the need for lowering interest charges, or scaling down the accumulated burden of interest or spreading repayments over a series of years action has been delayed too long. In Burma, such action was taken several years ago on a well-conceived systematic basis. The lines on which systematic action should be taken engaged the attention of the new responsible administration in Bombay shortly after it assumed office, and the policy to be followed was formulated in the Joint Reorganization Report submitted to the Government of Bombay in 1937. Still, after the lapse of four years, it will not be possible to hazard the statement that frozen debts in all societies have been dealt with on the lines recommended in the Report.

That is more or less the position in a majority of the provinces, although, the Reserve Bank of India and various experts have pointed out, time and again, that the overdue and frozen loans should be separated and put on a proper footing. As the Reserve Bank recommends in its Statutory Report; "Overdues should be

brought down to a level at which there was a reasonable prospect of repayment out of the profits of agriculture within a reasonable period, say twenty years, partly by writing them off from reserve and other funds and partly by recovery from sale of part of the member's assets and spreading out the remainder into instalments and transferring them to some special agency equipped to deal with long term credit facilities such as a land mortgage bank. It may be argued that it is difficult to follow this course particularly when the funds of the society are not sufficient to cover the losses. Where this is the case it is better to face the facts and to decide what agency can best bear the losses. Liquidation of the society is by itself no solution as even after selling up the members, the result may only be the acquisition of land by the society and losses may still be left uncovered. Liquidation also not only kills the society but brings the movement into disrepute and leaves a void in the structure of agricultural finance. It is better to follow the bolder policy of deciding at the outset what losses are inevitable and to make provision for recovering the rest in easy instalments." To meet this situation, societies may not have adequate reserves or other resources, or the financing agencies may not always be in a position to help. In conditions similar to these, the State has come to the aid of co-operative banks in other countries, but in India it is only in Bihar that some responsibility in the matter has been accepted by the Government of the province. In some provinces, even though Government have exercised detailed control over financial operations, they refuse to recognize any moral claim of the movement on the funds of the Treasury. It is not surprising, therefore, that central financing agencies hesitate to grant the concessions and facilities that are required, uncertain as they are about the attitude of Government towards their difficulties. This too is an aspect of the working of the co-operative credit system in our country which has often escaped the attention of critics. It may explain, to some extent, the growth in arrears, the drop in membership and the lack of all expansion.

There are two other features of our rural life that account for a number of disabilities under which the co-operative movement labours. Co-operative credit is credit based essentially on the personal character of the borrower; but credit invariably connotes security for repayment. That security is forthcoming to the extent that the person financed or the industry he pursues is solvent. Unfortunately,

agriculture, as conducted in India, is not an industry conducted for gain but is an occupation which large numbers pursue for mere subsistence. A state of deficit economy is a permanent feature of rural economy in most parts of India. To what extent a system of credit can flourish when the common lot of the agriculturist is a series of deficit budgets it is hard to conceive. Similarly, the prevalence of illiteracy over large areas of the country and among large sections of the population presents an impediment that is difficult to overcome. The co-operative form of organization is a democratic one, and the success of democracy consists in the exercise of vigilance by those who constitute that democracy. The possession of a knowledge of letters, it may be argued, may not necessarily make an individual a better human being or a better producer, but it is undoubtedly an aid to making of him a better citizen in a modern state and equipping him better to run a democratic organization. Gokhale foresaw long before Lenin did that a progressive nation could not be built up on the foundation of an unlettered proletariat. But when pioneers like Sir Vithaldas D. Thackersey urged the application of compulsion in education at least to the children of members of co-operative societies, responsible Government officials of the time scoffed at the suggestion. How can training and education be imparted on systematic lines to masses of members, the bulk of whom are unlettered and who can, therefore, exercise little or no control over the doings of their office-bearers or their paid employees? Consciousness of public duties of the modern type necessarily grows apace with education. In Gujarat, Baroda has forged ahead today of the neighbouring districts of British India in matters co-operative. May this not be due to the fact that, in Baroda, compulsory education has been in operation for the life-time of a generation?

Common Depots in Credit Co-operation

These, then, are some of the extenuating circumstances which account partially for the lack of success that has attended the rural co-operative movement so far. Those who speak of the failure of co-operation have in mind mainly co-operative credit. In spite of the lack of success of this form of co-operation, it will be incorrect to think merely in terms of failure. Everywhere in India, there are numbers of societies which, in spite of the disheartening conditions in which they have worked, have done well; they have built up their own

resources from which they manage their operations diligently, honestly and efficiently. But a few points in the criticism that are usually levelled against the movement are generally applicable to many of these societies as well. These points of criticism are :

- (i) There is no attempt to build up local resources through the encouragement of the practice of thrift among members.
- (ii) Financing is dilatory, inelastic or unsystematic.
- (iii) The societies do not function as agencies for rural economic improvement.

In regard to the first point of criticism, it may be urged that the position changed for the worse after the depression. While reserves have increased, the amounts raised by means of shares and deposits have declined. But as will be seen from the following figures, this decline is not disproportionately high looking to the reduction that has occurred in outside borrowings and in the aggregate working capital :

<i>Year</i>	<i>Share capital</i>	<i>Members' deposits</i>	<i>Loans from banks</i>	<i>Reserves</i>	<i>Working capital</i>
1929-30	4,22,66,757	1,80,92,320	21,21,65,163	5,84,38,980	34,93,12,049
1938-39	4,05,95,226	1,35,52,484	15,98,19,592	7,54,09,545	31,61,51,082
1939-40	4,07,92,875	1,23,99,858	18,54,98,828	7,11,88,900	30,50,97,267

Though the reduction in outside borrowings and the increase in reserves are satisfactory features, the stagnation in the matter of deposits and shares is undoubtedly a disquieting phenomenon, particularly for a province like Bombay where deposits from members have declined from Rs. 75,01,294 in 1930-31 to Rs. 21,51,306 in 1938-39, while those from non-members have gone down during the period from Rs. 41,43,294 to Rs. 19,85,864. The village credit society does not seem to be on the way to become a village bank, which, I believe, is the goal that every credit society should set before itself. It cannot be argued that there are no savings whatsoever available in the village where societies have been at work. for it is certain that deposits are attracted even in the remotest parts of the country by the Post Office Savings Banks. It must be admitted that no persistent efforts have, however, been made to tap this source and thus to enable local savings to be used increasingly for local productive developments.

It may also have to be admitted that today, in most parts of

India, the financial accommodation given by agricultural credit societies is, on the whole, inadequate and dilatory. Against an average lending of Rs. 40 or thereabouts in 1929-30, the average lending in 1938-39 was not over Rs. 18. In Bombay, the figure is nearly Rs. 50 per head, and, owing to the general adoption of the system of normal credits and the proximity of branches of central financing agencies, the process of securing funds is not so dilatory as it is in some other provinces. But even then, as a rule, financing is not so well-regulated and systematic as should be the case if our agricultural credit societies function as village banks. With responsible committees they should be ready to consider and sanction loans for emergent needs and should adopt a well-devised system of cash credits suited to the requirements of the local agricultural industry. When the average amount of loan granted was Rs. 40, the total outstandings were in the neighbourhood of Rs. 100. Today, the average amount of loan outstanding is hardly Rs. 70, and yet nearly half of this is overdue. That being the case, one can hardly urge that the supply of finance should be increased, unless there is greater assurance held out than at present of its repayment. Is such an assurance forthcoming or can it be effective? In this Province, the practice has recently grown up of calling upon members of societies to give their lands in mortgage to the societies even for short term loans. That step may ensure priority in the event of the application of the Bombay Agricultural Debtors' Relief Act and it may prevent the ultimate security for the loans of societies passing into the hands of money-lenders. But this practice cannot ensure the timely discharge of obligations which is, however, the principal concern of a short term credit agency. If the object of taking mortgage security is merely negative, namely, to prevent alienation or the impounding of the assets in execution of decrees, it may be served better by the adoption of the method proposed in the Bombay Co-operative Societies Amending Bill of 1939. According to a provision in this Bill, while seeking admission to resource societies—this need apply only to societies with unlimited liability—members should notify their property in lands which would be held inalienable during the continuance of their membership of the societies. The creation of an agricultural charge has been suggested by various authorities; and in Madras, the disposal of crops, cattle and other moveable property on which a charge is created under the law in favour of the co-operative society from which loans have been borrowed for specific purposes

is considered an offence punishable with a fine. The penalty attached to the offence is imprisonment under the English Agricultural Credits Act, while under the Bombay Agricultural Debtors' Relief Act the transaction becomes void in addition to the action being treated as an offence. It is no use, however, multiplying sanctions under the law if the sanctions are to be as inoperative or as ineffective as are some of the existing sanctions under the Co-operative Societies Act. For this reason, I would favour the linking of credit to marketing and supply as likely to be more helpful than paper sanctions that are never enforced.

In retrospect, I am not inclined to find fault with Government or with the pioneers of the co-operative movement in India for having not only started with rural credit but also having concentrated effort on it for years together. It is the stupendous problem of agricultural indebtedness that stared them in the face all the time. In the absence of a suitable machinery for agricultural credit amenable to social influences the evil of indebtedness was getting aggravated. The disruption of the village community, the centralization of administrative authority in an agency out of touch with the daily life of the villagers, the introduction of a rigid judicial system—with legal talent aiding the client having the larger purse—the opening up of channels of investment and speculation for the monied classes, and the gradual removal of restrictions on and impediments to easy borrowing, all these contributed during the last three-quarters of a century towards the growth of an evil which was acute enough to engage the close attention of the founder of Indian economic thought, the centenary of whose birth was celebrated a week ago. An agency was required not only to take over on fair terms the accumulated debts of agriculturists but also to provide credit for the normal requirements of agriculture. It was felt that the development of a suitable credit agency would do more than usury laws to suppress the usurer.

Unfortunately, as in other parts of the world, ordinary banks, for various reasons, do not take any interest in the provision of credit to the cultivating classes. One of these is that agricultural finance involves the unprofitable keeping of a mass of small accounts for modest-sized transactions. That is due to the fact that the agricultural industry is carried on by isolated individuals scattered over the countryside who stand perpetually in need of credit for raising

crops or rearing cattle. Security is ordinarily available in a form which it is not easy for banks which have distant offices to accept. This is particularly so in view of the difficulty of gauging the solvency of a host of individual petty borrowers. Moreover, the period for which credit is usually required is too long to fit in with the manner in which the business of banks is organized. Depending as they do for their resources mainly on deposits repayable either at call or at short notice, periods of nine to twelve months necessary for the financing of agriculture are unacceptable to them. "The virtue of the rural credit co-operative society lies," as is well observed in 'Co-operative Action in Rural Life,' "not only in its disinterestedness but also in its proximity to those whose needs it must cater, the simplicity and efficiency of its mechanism and the security of its transaction." Lastly, as M. Tardy notes, the security that farmers can offer is to be found chiefly in their moral and occupational standing and can seldom be accurately estimated except by local and regional credit institutions which are in touch with borrowers and are thus able to obtain useful information on the spot.

It may be urged that, although in theory, the co-operative credit society may be the most suitable agency for dispensing credit, does not experience belie any hope of its being successful in conditions such as those obtaining in India? It is indeed true that a very large proportion of societies all over India have failed to work well; but those that have succeeded are not negligible in numbers. Though the personal factor may have contributed to their success, the other factors that have been responsible for the results that have been achieved need to be studied with some care. It is by emphasising such factors that we may be able to build better for the future.

The proper selection of members is the first of these factors, and this arises out of the fact that the organization is a voluntary one and that the outside debts are guaranteed by the joint responsibility of all the members. In view of the lack of a capital of guarantee and the need for borrowing for normal operations, the acceptance of unlimited liability seems to be inevitable. But whatever the form of liability, it cannot be emphasised too strongly that personal credit is dependent, in the ultimate resort, on the practice of thrift. As observed earlier, after the depression this aspect of co-operative credit has receded into the background. In any future scheme of reorganiza-

tion, the collection of savings at harvest time either in the form of instalment shares or savings bank accounts should form an essential feature of the working of rural societies. It will be necessary generally to restrict the borrowing powers of societies to some multiple of the savings so collected. The borrowing of large funds from outside without some conscious effort on the part of the members themselves has bred a sense of irresponsibility which position can be remedied only if members can be made to feel that the power to borrow from outside will grow apace with the practice of thrift by them.

Next, the easy going manner in which unpunctuality is dealt with also has an adverse influence on the functioning of the societies as efficient business bodies. There is a great deal to be said for the view put forward in the Statutory Report of the Reserve Bank of India on agricultural credit that after the harvest if repayments are not received and extensions cannot be allowed on account of poor crops, a drop in prices or other valid grounds, notices of demand should be served on members and legal action should be taken forthwith in the event of failure to pay. Delays between the receipt of arbitration awards and their submission for execution should be eliminated. The enforcement of a little rigidity at the start will avoid the need for more stringent action having to be taken later on. The procedure for arbitration should be simplified if not expedited; but I am not disposed to favour any extension of facilities by Government for the execution of awards through the agency of the Revenue Department. While, on the one hand, the dilatoriness of the process of recovery from recalcitrant defaulters has encouraged contumacy, it cannot be denied that, on the other hand, the fact that there is, at least on paper, access to coercive action for speedy recovery has engendered among the management and the supervising or financing agencies a certain slackness in the matter of scrutiny for loans and the punctual enforcement of demands. Co-operative credit will succeed only to the extent that it is conducted with caution and with efficiency like any other banking system. The feeling that someone else is to recover one's debts tends to lessen one's sense of responsibility. I would hence urge that recourse to coercive action through the Revenue authorities should be the exception rather than the rule.

Machinery for Supervision and Control

Lastly, I would refer to the effect of the present system of manage-

ment and supervision in perpetuating conditions which run counter altogether to the basic principles of co-operative credit. A village credit society has advantages over a distant banking agency only if local knowledge is brought to bear on the grant and recovery of advances and if the effective control of the management vests in the representatives of the general body of members who assume joint liability. The failure to evoke a sense of responsibility has led, in almost all provinces, to the setting up of a system of supervision and inspection where the springs of effective control rest elsewhere than with the local unit. This may have been necessitated by the general breakdown of the management of the local society, but that is no reason why even where societies have accumulated their own funds or have managed their own affairs with circumspection the same degree of outside control should continue. A distinction does certainly deserve to be drawn between societies and societies, and all local effort and initiative deserve to be encouraged, especially by way of the appointment of local secretaries and the sanction of loans to members without outside scrutiny. In co-operation, we cannot conduct the affairs of others; if on that basis credit societies cannot be organized or run, the attempt to provide credit through them may well have to be abandoned.

Similarly, if confining the operations to a village of fair size is deemed unsuitable from the point of view of securing the requisite personnel and the area has to be extended to a group of villages it is a question for consideration whether there can be any joint liability, enforced on the organization or much reliance can be placed on the personal factor in credit. The moment credit comes to be based mainly on tangible security, such as that of the mortgage of land, it will become necessary to set up such a machinery as will evaluate that security properly and will attend satisfactorily to the work of investigation of title and execution of documents. It may be that, in these circumstances an agricultural bank of the limited liability type covering a number of villages may be found more suitable than the multi-purpose society advocated by some. Such an organization can also bring within its fold the larger holders of land. These stand out of the co-operative credit movement, although their need for a well-regulated system of agricultural credit is nearly as great as that of the average cultivator. Unfortunately, such larger holders do not fit well into the scheme of

village credit societies and are often a source of inconvenience and embarrassment, especially when they turn out to be defaulters.

Just as some special machinery is required to be set up to meet the needs of the bigger cultivators, it is also necessary to make a distinction between the agriculturists in backward areas or belonging to backward tribes and others. A simpler form of organization may be more suitable for these former, particularly as the bulk of their credit transactions are in kind. Experience shows that grain banks accepting deposits in the shape of grain annually at harvest and granting petty advances for seed or maintenance in kind thrive better for backward tracts and among backward communities. The main point that I wish to emphasise is that co-operative credit in its application may have to be adjusted to meet the requirements of the particular sections of the community it seeks to serve.

To what extent have defects in the machinery for the supervision, inspection and audit of societies contributed to their inefficiency? The systems of supervision, inspection and audit are not uniform throughout India, and all possible devices have been tried; it would be dogmatic to assert that a particular one out of these various systems should be introduced all over the country. But about a few features of these arrangements I should like to express my views in brief. Firstly, it is necessary to insist that the agencies responsible for any of these functions should not attempt to do for societies' work which societies should do for themselves. Secondly, the ultimate responsibility for audit, in the conditions obtaining to-day, should rest with Government and should be discharged through a staff which is not associated with the work of supervision and administration. Thirdly, the final authority in the matter of dispensing credit to primary units must vest in the central financing agencies which should be in a position to regulate the grant of such credit by engaging their own staff. Lastly, it is undesirable to entrust the work of supervision to a host of petty officials who are subject only to the control of a provincial organization. That would be a travesty of mutual supervision and control. As a corollary, therefore, decentralization of control is required in conducting the work of supervision. It may be that in some parts of the country the suitable unit may be a revenue district, while in others it may be a taluka. But that there should be some organic association of representatives of the federating societies with the work of supervision

is, to my mind, essential. I am all in favour of experimentation and elasticity in this matter, and I see no objection to supervision and financial control being combined and provided through a banking union. Only the agency should be one that is purely co-operative and it should be local in the sense that it should not have an extensive area of operations. It may be that in some provinces where the unit of financial organization is a district, a banking union may not be found suitable. In such areas, contact between borrowing societies and the district financing agency should be secured by the opening of branches.

The local agency for supervision should also, in my opinion, form the local agency for the diffusion of education and the provision of training in co-operation. Just as it will have to forge links with central banks in the matter of the regulation of the arrangements for finance, similarly, in the matter of supervision and education it should form links with a provincial union or institute at the top. The apex organization will thus be mainly a federal body, but in matters educational, for advice on questions of policy, for propaganda in the matter of new developments and for assistance in study and research it should enlist the services of economists, businessmen and other public-spirited persons. Experience shows that the efforts at economic betterment to be effective have to be preached, propagated and practised by the leaders of the rural community. To create this new type of leader among the rural population, the individual who strives not for himself but for the community, what we want is new ideas of citizenship. Redirection of the system of rural education may provide for us, in the next generation, leaders of the right type.

A perennial topic of controversy among co-operators, both here and abroad, is the relationship that should subsist between the State and the co-operative movement. I do not propose to embark upon a disquisition on the theoretical aspects of this question, but would venture to offer a few observations on the practical aspects of the problem as it presents itself to us in India. Under the Indian Co-operative Societies' Act and, particularly, in the provincial enactments, the Registrar of Co-operative Societies has vested in him ample powers for superintendence and general control. It is open to the Co-operative Departments to exercise the powers they possess wherever they find abuses or irregularities. But, despite the wide powers already enjoyed, there is almost everywhere a tendency on the part of Co-operative

Departments to ask for the strengthening of the statutory authority that the Registrars already possess. If, however, experience has shown that there are defects or deficiencies, these may be remedied, provided that in doing so Government and the legislatures do not lose sight of the ideal of having a self-controlled co-operative commonwealth. As it is, the co-operative movement in India is looked upon as a part of the administrative machinery of Government. This impression arises because of the attitude often adopted in official circles, in several parts of the country, that it is for the Co-operative Department to lay down the law and even to manage the affairs of co-operative institutions in certain circumstances. Such an attitude saps the sense of responsibility and kills initiative and enterprise. These are, however, exactly the qualities on which a premium should be placed in the co-operative movement.

The proper role of the co-operative official is to ensure the proper observance of the law, to conduct audit efficiently, to arrange for the impartial adjudication of disputes, to carry out formal inspections and inquiries, to regulate the work of liquidation, and, when called upon to do so, to guide and advise. Such guidance and advice are particularly needed in respect of new developments such as those I shall refer to, later on. For these developments in the field of agricultural organization, additions to the official staff may well be made as in the Punjab or recently in the United Provinces. Subsidies and subventions may be needed for such special forms of development, at least in the early stages. Loans from Government have rarely been in demand in the co-operative world in India, except in the early stages or thereafter for some special purposes such as housing or on occasions of emergency. As a general practice, where federal organizations exist, it will be unwise for Government to lend funds direct to the primary unit and the same practice may well be followed in the matter of subsidies or subventions. The grant of such financial assistance should not, however, be treated as a ground for tightening the strings of official control. This is true particularly in the field of co-operative education and training, the direction and control of which, I believe, should remain in the hands of non-officials, even though the apex institutions or unions may be in receipt of substantial grants from Government.

These are all problems connected, mainly, with agricultural credit. It need scarcely be emphasised, however, that agricultural credit itself

demands for its success the pursuit of some of the traditional methods which have made for safety in the realm of indigenous rural finance. One such method is insistence on payment in kind wherever feasible and demanding repayment at harvest, almost on the threshing floor. How far is it possible for the office-bearers and committees of societies to follow up the borrower's produce and avoid resort to the enforcement of penalties and to other legal sanctions? To the extent that societies reorganize their affairs so as to be in a position to do this, to that extent they will succeed in devising a system of mutual credit as elastic and as foolproof as that of the sawkar. To this end, societies should be encouraged to go in for transactions in kind, under proper safeguards. The receipt of deposits in kind, the opening of grain depots as an auxiliary activity, the collection of produce for sale and the grant of accommodation against such produce are all adjustments in the machinery of rural co-operative credit that have long been overdue.

While rural co-operative credit in India has ignored, on the one hand, some of the valuable features of the indigenous credit system, it is unfortunate that, on the other hand, it has also not become the medium for progress in the agricultural industry to the extent that it should have. Credit applied to agriculture fructifies to the extent that agriculture becomes a remunerative undertaking. In other parts of the world, it has been the business of primary co-operative societies and their federal organizations for finance and mutual supervision or control to promote better farming among the agricultural community they serve. Experience in India too shows that there is greater response to the propagandist activities of co-operative organizations and their workers when the propaganda goes beyond the sphere of lessons in thrift, punctuality and observance of obligations and extends to efforts for the introduction of better seeds, implements, manures, the adoption of better methods of production and the organization of joint sale of produce.

Integrated Co-operation

It is the fault of us, co-operative workers, if so far we have not taken full advantage of this responsiveness and if our own machinery for non-credit developments has been either non-existent or deficient. It was recognition of this lack of scope for what Dr. Fay has termed "integrated co-operation" that led Mr. A. B. Latthe, Minister of

Finance under Bombay's first responsible Ministry, to draw up plans for a co-ordinated programme of rural development under one administrative head. In as much as that Government recognized co-operative societies of various types, particularly the proposed multi-purpose societies, as suitable agencies for promoting agricultural improvement and rural progress in general, the charge of the rural development department, was entrusted to the Registrar of Co-operative Societies. That scheme has now been abandoned ; but in any future plan of rural development, a prominent place will have to be accorded to the co-operative credit, multi-purpose, better-farming, joint farming or land improvement society as the medium '*par excellence*' for ensuring a diffusion of the results of researches to the homes and farms of individual cultivators and for securing their adoption on an expanding scale without much cost to the State. As Prof. Hall observes, rural credit co-operative societies and co-operative marketing societies " by combining the provision of capital with the services of technical experts having specialized knowledge in the production and marketing of crops, are likely to be able to play a particularly valuable role in linking together the policies of Governments with the needs of individual farmers. "*

There are provinces in India where use has been increasingly made of the co-operative society for achieving agricultural progress. The most striking developments in this field are the societies for the consolidation of holdings (1477) started in the Punjab (the United Provinces too has now 182 such societies), and the sugarcane supply societies of the United Provinces (839) and Bihar (1488). Both these represent large scale developments which have had an appreciable effect on the economic life of the sections of the agricultural population brought within the range of the activities of the societies concerned. There are no other non-credit institutions functioning on an appreciable scale in these or other provinces, although better farming societies in the Punjab (496), ghee production and sale societies in the United Provinces (783), irrigation (1011) and anti-malaria societies (1099) in Bengal, loan and sale societies (149) in Madras and milk supply societies near Calcutta (226), Madras and Lucknow constitute important groups

* Economic Committee of the League of Nations, L. O. N. P., 1938, ¶ B 4.

which may, in course of time, bring about altered conditions of rural economy within their respective restricted spheres of working. The initiative in most of these developments, with the possible exception of the loan and sale societies in Madras, or the anti-malaria societies, has been taken by the State. That may vitiate their co-operative character in the eyes of the orthodox co-operator, although recent according to trends in co-operative thought in the West the need is accepted for close collaboration between the State and co-operative organizations. In a publication of the League of Nations*, the observation is made at the conclusion of the survey prepared by the Co-operative Service of the International Labour Office, that the State should give co-operative organizations their place in every general scheme to organize rural credit, regulate the market in agricultural products and control the conditions of production, life and labour of the peasant class. What is required, it is added, is not so much direct financial assistance as moral and technical support. In view of the backward condition of rural economy in India and the general lack of education as well as of local resources, what we in India want is something more. We need not, therefore, cavil at the State taking the initiative and finding funds for education, propaganda, and preliminary organization. In fact, we should welcome such action where organization on co-operative lines possesses distinct advantages to the unorganized producer in rural areas. From the point of view of the State, the co-operative society provides an effective agency for converting the small-holder or the artisan to necessary innovations in methods of production and for overcoming the inertia of custom. From the point of view of the community, collaboration between the State and co-operative institutions provides "a valuable safeguard against rash improvisation and against spiritless routine."

It is doubtful, however, whether, in all Provinces in India, Provincial Governments have an equal measure of faith in co-operation as the instrument for rural economic organization or have a uniform consistent policy to be pursued in this matter. In Bombay, for instance, there is no development in rural areas that can compare with the achievements in the field of agricultural organization on co-opera-

* Co-operative Action in Rural Life, European Conference on Rural Life, 1939.

tive lines in some other provinces. To give an illustration, in spite of recommendations made by the Bombay Provincial Banking Inquiry Committee*, no investigations have been made hitherto into the natural resources available in various districts for works of minor irrigation and land development, and programmes drawn up for execution within a specified period. Or take, again, certain recommendations made by the Irrigation Committee (1938), proposing the use of the co-operative agency for the distribution of water and other purposes. I can mention also various similar recommendations made by the Royal Commission on Agriculture or the Central Banking Inquiry Committee. I have yet to learn that any serious systematic action having ever been initiated in pursuance of these recommendations for using the co-operative method of organization for any of the approved objects. If Government themselves seem to ignore the various channels for utilizing the force represented by co-operation for rural reorganization, is it a wonder that the community in general and agriculturists in particular come to look upon a co-operative society merely as an agency for cheap credit? In rural areas, the impression has come to be generally held that co-operation begins—and usually ends—with the act of borrowing someone else's money. If that impression is to be removed and the emphasis is to be shifted to co-operation as a means of promoting better farming, better business and better living in general, it is essential that, as in some of the provinces mentioned above, the Provincial Government should make the services of their staff available for assisting in the systematic organization, on a sound basis, of co-operative institutions for purposes other than credit. As experience in the Punjab or the United Provinces shows, expenditure on assistance in promoting these forms of organization is always worth incurring. Only the danger has to be avoided of allowing the movement to degenerate into a governmental policy. Unless large Government funds are involved in the undertakings, the official machinery should be gradually withdrawn and direction and control should be transferred to elected representatives.

Marketing and Cottage Industries

These are broad aspects of the problem of rural reorganization

* Recommendations Nos. 40 & 41 (1930).

that I have attempted to deal with, though in general and somewhat inadequately. On two topics I propose to offer a few detailed remarks. The agricultural producer is in the unfortunate position of not being able to select his own market either for supply or for sale. Mostly, he buys in the dearest market and sells in the cheapest. Marketing surveys and marketing organizations conducted in recent years and the legislation that has been enacted so far have not succeeded in changing this condition of affairs. The organization of the agriculturist for purposes of marketing has to be from below and not from above. Such organization will, undoubtedly, have better prospects of success if the number of regulated markets under the legislation intended for the purpose is increased. Another facility that is very badly needed is the provision of godowns and warehouses in rural areas. Cheap long-term capital should be provided for this purpose to co-operative organizations or panchayats, and in some centres the godowns may have to be constructed and owned by Government themselves. Subsidies should be given by Government in the initial stages at all centres where small marketing agencies are formed locally by agriculturists. Such organizations may serve small areas with homogenous agricultural conditions, and later on may form part of district or regional federations. It is necessary, at the same time, to enable the cultivators—especially the growers of staple crops like cotton, groundnut, rice and also of fruits and vegetables—to have direct access to central markets. Initial expenditure for the organization of such market facilities should be shouldered by Government for the first few years. If the experiment succeeds, it may pave the way for the formation of central or wholesale co-operative marketing organizations all over the country.

The other question is that of supplementing the income of the agriculturist and of providing the underemployed or unemployed population in rural areas with alternative occupations. A good portion of our country is unfortunately liable to recurring famines and scarcities and the area under irrigation is comparatively small. The existence of small and scattered holdings also impedes progress towards intensive cultivation. In these conditions, the possibilities of securing an increase in the productivity of the soil are somewhat limited in the immediate future. It is, for this reason, essential that Government and the people should explore the possibilities of finding for the agriculturist and inducing him to follow a suitable and profi-

table side pursuit to supplement his scanty income from the land. It was such occupations—the second string to his bow—that helped the agriculturist in the past to have the wherewithal to struggle against debt and poverty; but one by one several of these bye-industries have been destroyed and few have succeeded in adjusting themselves to the changed conditions of modern economic life. It is State action alone that could have secured this adjustment, and even at this late stage it is possible to make the attempt. The principal among our rural industries is the processing of the staple commodities for local use and inland export, while equal importance may be attached to the industry of cloth manufacture. Next in importance is the tanning and leather industry. Government should embark on a programme for the encouragement and support of these and other local industries by promoting the formation of producers' societies wherever possible, granting subsidies and subventions, providing technical advice and guidance, assisting in the organization of facilities for credit and marketing, and patronizing the products themselves. Here I should like to refer to the importance that various authorities attach to the part that co-operation can play in developing cottage industries or encouraging resort to secondary occupations. I shall, as an illustration, cite the findings of a recent inquiry by the Bombay Economic and Industrial Survey Committee, presided over by Sir Purshottamdas Thakurdas. "Nevertheless the co-operative method is the only ideal method for organizing small scale units such as the artisans are, and that goal has to be kept in view even though methods involving more outside control over the artisan may be necessary for the purpose of improving his condition."

Urban Banking

I have made no attempt in this lecture to deal with those forms of the co-operative movement which concern the economic organization of persons of small means among urban communities. Consumers' co-operation, co-operative housing, co-operative insurance—these represent important phases of co-operation, on the potentialities of which I do not wish to dwell today. I cannot, however, refrain from making a brief reference to the place of co-operative banking in the development of banking in India. The field of banking effort in India was surveyed most exhaustively by the Indian Central Banking

Inquiry Committee, after a detailed examination of the existing conditions in different parts of India and among different sections of the community. If one seeks for a single thread running through the general recommendations of that Committee for the various groups of the population in need of banking services, one will find that the co-operative method, in spite of its limitations and handicaps, is what strikes the Committee as most suitable. In an earlier part of the lecture, I have attempted to examine the suitability of co-operative banking for the short term requirements of agricultural producers; but, in addition to this large class, the Indian Central Banking Inquiry Committee envisages the adoption of the co-operative method for meeting the banking needs of the community for land improvement and debt redemption; for the marketing of agricultural produce, for rural and cottage industries, for small traders and shop-keepers, for salary-earners in Government departments, corporations, or public and private offices, and for wage-earners in industrial or other large scale establishments. If co-operators keep before their mind this comprehensive list of sections of the population they have to serve, they will have set before themselves an ambitious programme, within the limited sphere of banking.

It is in the Province of Bombay alone, however, that there has been some understanding and appreciation of the need for developing banking of the people, for the people, by the people. It is co-operative banks that have provided banking services in the remotest parts of the Province in more numerous places than are served by joint-stock banks. They have familiarized the local population to the use of modern instruments of banking, such as the cheque, or modern methods of banking such as the opening of current or savings bank accounts to be operated by means of cheques, drafts or orders. They have cheapened the cost of remittances in several nooks and corners of the Province and have accustomed agriculturists and traders to the pledging of commodities as security for advances and thus facilitated marketing operations. Compared to the magnitude of the task, the scale of the operations is still limited. I would plead for its extension not only in Bombay but all over India. This branch of co-operation represents a movement for the utilization of local resources for the development of local agriculture, trade and industries, it makes the banking service both responsive and responsible, and, above all, it encourages local

initiative and enterprise factors which are lost sight of when banking development is contemplated mainly through the agency of vast capitalist organizations directed and controlled from the metropolis.

Need for a Planned Policy

Although I realize that planning has to be on a nationwide scale and that national planning has no significance or utility for us in India unless we have charge of the destinies of our nation, I feel that the lack of consistent economic planning has been responsible for the steady deterioration that has occurred in the conditions of the rural population in recent years, in spite of the advance in agricultural research and the creation of numerous departments of Government intended to subserve the task of nation-building. Dealing as we do with a large number of small cultivators, whether tenants or peasant proprietors, the kind of economic organization that we can visualise for the near future, if we are to be guided by the experience of other countries, has to be of the co-operative type. So long ago as in 1924, at a conference held at Wembley, the broad basis of a programme of reconstruction was defined in terms which, I believe, will find general acceptance even today :

“ That agricultural prosperity depends upon the fulfilment of three conditions :

- (i) The application of scientific knowledge under the guidance of the State to the farming industry ;
- (ii) the voluntary organization of farmers for business purposes on co-operative lines ; and
- (iii) a reconstruction of life in the country with a view to removing the disparity between the respective attractions of town and country. ”

It is somewhat unfortunate that, with us, neither Government nor the public in general have hitherto appreciated adequately the role of co-operation in the scheme of national planning. It is true that some Provincial Governments, notably that of the Punjab, miss no opportunity of employing the co-operative method for dealing with specific problems such as that for the consolidation of holdings. And

to a co-operator, it is a matter for congratulation that the National Planning Committee has, in its preliminary findings, urged very definitely the adoption of the co-operative method for; rural credit; the marketing of agricultural products; insurance in all its forms; land development; and farming. In these days when social and economic life is getting disorganized under the stress of the war, it is difficult to put in a plea for any long range policy or for ordered planning. Yet, the need for pleading for a recognition of the place for co-operation in the schemes of reconstruction after the War cannot be too strongly emphasised. Whether it is marketing, the supply of improved varieties of seed, the manufacture of local products into industrial products, the extension of schemes of well-digging, minor irrigation works or land embankments, the introduction of programmes of soil conservation or anti-erosion on an extensive scale, the settlement of demobilized soldiers or discharged industrial workers on new lands, the co-operative method appears to be eminently suited as the basis of reconstruction. I put forward the plea not as an idealist or as an enthusiast, but as one who seeks to see his country progress along paths which have led to economic peace and prosperity in other countries.

With the growth of communications and the opening of contacts between all parts of the world, it has become increasingly difficult for the individual producer, agricultural or industrial, to stand alone. If he is to hold his own in a competitive acquisitive society, he has to join forces with those who are similarly circumstanced as himself. The only form of organization that one can conceive of in these conditions of our economic life is the co-operative, and the time has come when, in the interest of national progress, it has become necessary to harness the effort and enthusiasm of the common man for the economic development of the nation on lines which harmonize the interests of the individual with those of the State. Apart from other countries that have shown the way, the recent example of China is there to fill us with confidence and hope. One of the achievements of the Chinese industrial co-operatives has been the introduction of technical methods which enable the units to carry on production on as thoroughly self-supporting a basis as is possible in the conditions caused by the war with Japan. But a greater one has been the creation within the societies of a strong co-operative spirit which enables them to work together and to hold together, even in the face of changing conditions

of social life. It has provided a place and a means for small endeavours and the co-ordination of small enterprise for effective production. It is, besides, as a writer has put it, a banner under which all can rally. It is true that China has built up this vast organization under the stress of the war; that, however, can have only added to the difficulties and not smoothened the path. But the history of co-operative developments elsewhere shows that it is not the case that the urge for co-operation has always been a national upheaval. China is fortunate in that the State and the people are one, whereas in India we are separated both in thought and in action. Notwithstanding this, Governments in India have never been hostile to co-operation; they have merely been indifferent or apathetic, they have been unwilling to allow the people to take the initiative and, attached as they have been to *laissez faire*, they have never consciously adopted any plan for rural reorganization through the agency of the co-operative society.

Whatever may have been the attitude of British administrators in the past towards planning in peace time, in times of war, they accustom themselves to ideas of controlled economic development. In view, presumably, of the chaos and confusion that arose in the wake of the last Great War, the Government of India—and taking the cue from them some Provincial Governments—have started to think in terms of planned economic reconstruction after the war and have sought the assistance of some of the leading economists and businessmen in the country to aid them in their task. At such a juncture it is the duty, I believe, of co-operative workers and of those who subscribe to the principles of co-operation to formulate their views on the place of co-operation in post-war reconstruction in rural India. It may be too much, probably, to claim that co-operation is suited to the genius of India or fits in with our traditions of economic organization. I can only urge that it meets our present conditions very eminently and facilitates our task of building up an equalitarian society on the basis of non-violence. What I have in mind may be well expressed in the words of Aldous Huxley: "Capitalism tends to produce a multiplicity of petty dictators, each in command of his own little business kingdom. State socialism tends to produce a single, centralized, totalitarian dictatorship, wielding absolute authority over all its subjects through a hierarchy of bureaucratic agents. Co-operatives and mixed concerns already exist and work extremely well.

To increase their numbers and to extend their scope would not seem a revolutionary act, in the sense that it would probably not provoke the violent opposition which men feel towards projects involving an entirely new principle. In its effects, however, the act would be revolutionary, for it would result in a profound modification of the existing system. That alone is a sufficient reason for preferring these forms of industrial control to all others. The intrinsic compatibility of the co-operative enterprise and mixed concern with small-scale democracy and self-government all round, constitutes yet another reason for preference." I do not claim that the thoughts I have presented in this address are any contribution to the drawing up of a programme of reorganization on co-operative lines; it is merely a plea for the co-operative movement being recognized as an eminently suitable agency for promoting rural development in its diverse forms. My purpose will be served if it stimulates thought among co-operators and economists and evokes some response among administrators and their financial advisers.

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